

Financial Statements

**Northern Lakes Community
Mental Health Authority**

September 30, 2005



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Northern Lakes Comm Mental Health Author.	County Grand Traverse
Audit Date 9/30/05	Opinion Date 1/5/06	Date Accountant Report Submitted to State: 3/27/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

RECEIVED
DEPT. OF TREASURY

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

MAR 28 2006

LOCAL AUDIT & FINANCE DIV.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) ROSLUND, PRESTAGE AND COMPANY, PC			
Street Address 308 GRATIOT AVENUE		City ALMA	State MI
Accountant Signature <i>Roslund Prestage & Company P.C.</i>		ZIP 48801	Date 3/27/06

Northern Lakes Community Mental Health Authority
Table of Contents
September 30, 2005

Independent Auditor's Report

Management's Discussion and Analysis I-VI

Basic Financial Statements:

Government-wide Financial Statements:

Statement of Net Assets 1

Statement of Activities 2

Fund Financial Statements:

Balance Sheet – Governmental Funds 3

Reconciliation of Fund Balances on the Balance Sheet for
Governmental Funds to Net Assets of Governmental
Activities on the Statement of Net Assets 4

Statement of Revenues, Expenditures and Changes in Fund
Balances – Governmental Funds 5-6

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities 7

Statement of Net Assets – Proprietary Funds 8

Statement of Revenues, Expenses and Changes in Fund
Net Assets – Proprietary Funds 9

Statement of Cash Flows – Proprietary Funds 10

Notes to the Financial Statements 11-29

Required Supplemental Information:

Budgetary Comparison Schedules 30-31

Other Supplemental Information:

Individual Fund Statements:

Statement of Personnel Expenditures 32

Statement of Operating Expenditures 33

Government Auditing Standards and OMB

Circular A-133 Audit Reports 34-37

Schedule Of Expenditures Of Federal Awards 38

Schedule Of Findings And Questioned Cost 39



INDEPENDENT AUDITOR'S REPORT

Northern Lakes Community Mental Health Authority
Traverse City, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Northern Lakes Community Mental Health Authority (the Authority), as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 5, 2006 on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages I-VI, and budgetary comparison information on pages 30-31, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the other supplemental financial information listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 5, 2006

**MANAGEMENT DISCUSSION
AND ANALYSIS**

Northern Lakes Community Mental Health Authority
Financial Statements for the Fiscal Year Ended September 30, 2005
Management's Discussion and Analysis

Introduction

The management of Northern Lakes Community Mental Health Authority (NLCMH) presents the following overview and analysis of financial activities during the past fiscal year. NLCMH was created as a Mental Health Authority effective October 1, 2003 by the joint actions of Boards of Commissioners for the following counties in the State of Michigan: Crawford, Grand Traverse, Leelanau, Missaukee, Roscommon and Wexford. Northern Lakes Community Mental Health Authority replaced the former Great Lakes Community Mental Health and North Central Community Mental Health as a merged organization.

Basic Financial Statement

Two types of financial statement are provided: **Government – wide Statements** and **Fund Statements**.

The **Government-wide** statements are designed to provide readers with a broad overview of the organization's finances in a manner similar to a private sector business.

The Statement of Net Assets presents information of all of NLCMH's assets and liabilities with the difference between assets and liabilities being reported as net assets. Changes in net assets serve as a useful indicator in determining whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how net assets changed during the fiscal year. Reporting of activities is on an *accrual* basis meaning that the change in net assets is reported as soon as the underlying event giving rise to the change occurs regardless of the timing of the related movement of cash.

The **Fund Statements** report groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. NLCMH, as a governmental authority, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

These funds are divided into two categories: governmental funds and proprietary funds.

Governmental funds has a narrower focus than that of the government-wide financial statement in that its focus is on the short-term movement of spendable resources and on the balances of spendable resources available at the end of the fiscal year.

Northern Lakes Community Mental Health Authority
Financial Statements for the Fiscal Year Ended September 30, 2005
Management's Discussion and Analysis

Proprietary funds are internal service funds which are held as a self-insurance against future risk. These funds consist of state of Michigan Medicaid and General Funds and accumulated interest that must be held for future risk or used to provide authorized services to eligible persons.

The accompanying Notes to Financial Statements are an integral part of our financial statements. They give the opportunity to expound on any account, activity, or area that clarification would be beneficial or required. The notes report our policies, compliance, and responsibilities of not only the current audited year but also of responsibilities we have entered into.

Comparison with Prior Year

The value of current assets, mostly cash on hand and investments increased by about 1% from the previous year however, the average daily cash balance was \$12,404,486 during the fiscal year, which is a slight reduction from the previous year. Cash on hand averaged 20% of annual spending which remains very healthy. The value of non-current assets grew mainly through fleet vehicle purchases and investments in software. There is no longer a requirement of maintaining \$500,000 in a bank deposit for the Foundation for Mental Health loan which is reflected in the reduction of security deposits. Net assets that are reserved dropped as result of using Internal Service Funds for Medicaid delivered services and prior years allowed savings. This was less than called for in the budget, but still decreases reserves available to meet unplanned service needs.

There was a growth in liabilities related to staff leave time as Northern Lakes achieved it's goal of accruing all potential liabilities in that area and geared up for a Paid Time Off leave system to be implemented in FY2006 for 85% of it's work force. The liability for inpatient services decreased slightly, while other liabilities increased above the previous year.

There was a \$40,000 dollar growth in the unreserved and undesignated fund balance, which was a positive change as the Northern Lakes attempts to achieve a level equivalent to 90 days of operation for both risk management purposes, and to have a source to slow and lessen the impact of State and Federal budget reductions. The current balance in unreserved fund balance is equivalent to 40 days of operation. The combination of Reserved for Risk Management and Unreserved Fund Balance as compared to annual spending is 15.1%, which

Northern Lakes Community Mental Health Authority
Financial Statements for the Fiscal Year Ended September 30, 2005
Management's Discussion and Analysis

dropped from 15.8% in the previous year. Northern Lakes is able to meet several years of risk spending with this amount of balance.

Most Revenues are earned when they are used for services. With the exception of a few grants, Northern Lakes used all dollars available to it in providing services. In total, there were about 1% more dollars in FY2005 than FY2004. Changes in State and County funding were due to timing or adjustments from prior years as were some of the increases in Medicaid dollars. There was a growth in the number of people who were qualified for Medicaid, resulting in additional dollars to serve them. Capitation rates for Medicaid did not change from the previous year.

Expenditures were lower in personnel as a result of the elimination of 6 Management positions at the end of FY2004, a purposeful delay in refilling other positions, a reduction in the number of Residential Care staff, and a more competitive pay package for the Residential care staff that changed during the year. The increase in Capital Outlays is from purchasing Vehicles and Software. Most Contractors were reduced or held constant, but in several areas most notably residential and state inpatient, additional services were purchased to meet increased demands. In total, spending on contractual services increased by about \$1 million or 3.6% with a majority of the dollars going to Northern Lakes affiliate partners. The other notable increase in spending was for client Medical Supplies which more than doubled as a result of new pharmacy costs for low income or non-insured consumers.

The most significant change in the year was prompted by a change in how FY2004 was cost settled with the State of Michigan. General Funds not used for services, were not allowed to be used as Medicaid savings as planned, resulting in a increase in the Internal Service Fund for Medicaid instead. This was long after the Audited set of Financial Statements were published last year. The difference in Medicaid Savings and Medicaid Internal Service funds has no financial impact on Northern Lakes as ultimately the dollars were used for services to people who have Medicaid coverage in FY2005 as planned.

For the second year in a row, expenditures exceeded revenues, although the amount was only 3 tenths of 1% of operations or \$146,276.

Northern Lakes Community Mental Health Authority
Financial Statements for the Fiscal Year Ended September 30, 2005
Management's Discussion and Analysis

Chart Comparison With Prior Years
Fiscal Year Ended 9/30/2005

	Northern Lakes CMHA Fiscal Year Ended 9/30/2005	Northern Lakes CMHA Fiscal Year Ended 9/30/2004	Combined Great Lakes and North Central CMHA Fiscal Year Ended 9/30/2003
Assets			
Current Assets	\$11,574,620	\$11,467,002	\$12,149,072
Non Current Assets	\$5,251,060	\$5,123,771	\$3,404,463
Total Assets	\$16,825,680	\$16,590,773	\$15,553,535
Liabilities			
Current Liabilities	\$4,326,442	\$3,709,031	\$3,822,351
Non Current Liabilities	\$1,122,266	\$1,044,326	\$920,962
Total Liabilities	\$5,448,708	\$4,753,357	\$4,743,313
Net Assets			
Invested in Capital Assets	\$4,184,666	\$4,018,733	\$3,404,463
Reserved	\$1,964,509	\$2,631,396	\$3,761,068
Unreserved Undesignated	\$5,227,797	\$5,187,287	\$3,644,691
Total Net Assets	\$11,376,972	\$11,837,416	\$10,810,222
Revenues			
State Grants	\$9,464,844	\$10,379,989	\$9,453,656
Federal Grants	\$761,326	\$878,256	\$729,780
County Appropriations	\$1,069,283	\$991,723	\$1,035,557
Charges for Services	\$35,136,776	\$33,985,673	\$33,984,141
Interest, Rents, and Other	\$534,946	\$226,601	\$419,283
Total Revenues	\$46,967,175	\$46,462,242	\$45,622,417
Expenditures			
Personnel Costs	\$14,843,214	\$15,429,160	\$14,309,146
Operating Expenditures	\$31,923,612	\$31,065,873	\$28,938,057
Debt Service Principal and Interest	\$67,448	\$71,255	\$274,792
Capital Outlays	\$550,626		
Total Expenditures	\$47,384,900	\$46,566,288	\$43,521,995
Revenues Over (Under) Expenditures	(\$417,725)	(\$104,046)	\$2,100,422

The Revenues and Expenditures displayed above are on a modified accrual basis to allow a three year comparison because FY2003 was only available on that basis.

Northern Lakes Community Mental Health Authority
Financial Statements for the Fiscal Year Ended September 30, 2004
Management's Discussion and Analysis

Strength of Financial Position

Changes in financial position, which help ensure the agency's future ability to provide services were:

1. Set up or covered the liability for all aspects of employee compensated absences including wage related Pension, Social Security and Medicare costs.
2. Reductions in direct operations were mostly limited to management capacity to allow services to continue to be provided at approximately the same level as the prior year.
3. Recognized the liability for self-funded health and dental insurance to account for incurred but not received claims which were previously not funded.
4. Deposited an additional \$900,000 into the under-funded defined benefit pension from the Great Lakes Community Mental Health Authority.
5. Settled the State of Michigan Audit of Great Lakes Community Mental Authority and recognized liabilities or amounts owed in these financial statements.
6. Added to the fleet of vehicles used in operations, giving the workforce more reliable transportation, with very little change in future operating cost.

Change in Budget during the fiscal year:

In March of 2005, the Northern Lakes Community Mental Health Board accepted a recommendation to use some "one time" sources of funding to balance the budget and continue to provide services at the prior year's level. Without the one time funding sources, services would have been reduced as much as 5%. The Internal Service Fund for Medicaid was used along with an increase based on Medicaid population growth. In addition, several grants were recognized bringing the total budget change to \$1.8 million, which approximated the prior years or FY2004's budget. Besides filling the grant capacity, Northern Lake's funding increases were used for residential, inpatient, and psychiatric services. Other increases include building maintenance and transportation costs. About 1/3rd of the increased dollars went to West Michigan CMHA and Northern Michigan Substance Abuse Services.

Northern Lakes Community Mental Health Authority
Financial Statements for the Fiscal Year Ended September 30, 2004
Management's Discussion and Analysis

About the Future

NLCMHA has recovered from its 2003/04 reduction of available Medicaid in the FY2005/06 rebasing of Medicaid. In retrospect, it proved to be a sound decision to maintain services instead of reducing, as the Medicaid redistribution proved to be even more favorable than expected. In the process of maintaining services some of the "safety valve" funds were used and Northern Lakes does find itself with fewer funds than desirable for the next time there is a reduction in available Medicaid. The plan for the FY2006 year is to try to recover some of the Medicaid Internal Service Funds and to continue expanding the un-reserved fund balance. Services were also planned to be expanded with the additional Medicaid capitation dollars in FY2006. It is anticipated that NLCMHA will be able to demonstrate both efficient and expanded services to a Medicaid population and that the services received are reasonable for the diagnosis of the people consumer.

In the long run, it is anticipated that Medicaid funding will go through cycles of reduction and expansion but to a far lesser degree than what occurred over the last four years. It is also anticipated that long-term funding will be lower than the increased cost of providing services. In preparation for this, services will need to be prioritized and successful approaches for recovery and more independence will need to be focused on.

Besides funding, NLCMHA is faced with a number of difficult issues for the future. There continues to be a focus on getting more consistent policies and practices for the organization over all locations. The merger brought to the surface a number of areas where change would be desirable and there is effort being put into accomplishing that, while at the same time not losing ground in areas where things work well. The unfunded defined benefit pension continues to be a difficult struggle in trying not to create an increase in the cost of services that could harm the organization, but still meeting the additional funding obligation of the pension. A long term plan needs to be developed for the Traverse City building that houses services and administration given that the allowable use of Medicaid and State funds does not match the cost to NLCMHA.

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005 AND 2004

	Governmental Activities	
	2005	2004
Assets		
Current Assets		
Cash and Cash Equivalents	\$5,769,333	\$6,869,329
Investments	4,781,403	3,597,015
Accounts receivable	162,761	-
Due from Other Governmental Units	841,932	481,952
Security Deposits	19,191	518,706
Total Current Assets	11,574,620	11,467,002
Noncurrent Assets		
Cash and Cash Equivalents - Restricted	881,906	863,645
Capital Assets - Depreciable, Net	4,369,154	4,260,126
Total Assets	16,825,680	16,590,773
Liabilities		
Current Liabilities		
Accounts Payable	3,128,378	2,452,633
Deferred Revenue	316,638	-
Due to Other Governmental Units	210,795	141,516
Accrued Wages and Other Payroll Liabilities	575,115	1,004,266
Other Liabilities	65,854	49,904
Current Portion of Long-Term Debt	29,662	60,712
Noncurrent Liabilities		
Compensated Absences	967,440	863,645
Notes Payable	154,826	180,681
Total Liabilities	5,448,708	4,753,357
Net Assets		
Reserved for Risk Management	1,964,509	2,180,961
Reserved for Medicaid Savings	-	450,435
Invested in Capital Assets, Net of Related Debt	4,184,666	4,018,733
Unreserved and Undesignated	5,227,797	5,187,287
Total Net Assets	\$11,376,972	\$11,837,416

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005, WITH COMPARATIVE DATA

Functions	Program Revenues			Net (Expense) Revenue and Changes Net Assets	2004
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental Activities					
Health & Welfare - Mental Health	<u>\$47,322,762</u>	<u>\$35,136,776</u>	<u>\$11,583,093</u>	(\$602,893)	(\$620,651)
General Revenues					
Unrestricted Investment Earnings				247,306	103,282
Restricted Investment Earnings				<u>54,997</u>	<u>25,574</u>
Total General Revenues and Contributions				<u>302,303</u>	<u>128,856</u>
Change in Net Assets				(300,590)	(491,795)
Prior Period Adjustments				(159,854)	1,518,989
Net Assets - October 1				<u>11,837,416</u>	<u>10,810,222</u>
Net Assets - September 30				<u>\$11,376,972</u>	<u>\$11,837,416</u>

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2005 AND 2004

	General Fund	
	2005	2004
Assets		
Cash And Cash Equivalents	\$7,567,521	\$8,968,316
Cash And Cash Equivalents - Restricted	881,906	863,645
Investments	2,983,215	1,498,028
Accounts Receivable	162,761	-
Due From Other Governmental Units	841,932	481,952
Security Deposits	19,191	518,706
Total Assets	<u>\$12,456,526</u>	<u>\$12,330,647</u>
Liabilities		
Accounts Payable	\$3,128,378	\$2,452,633
Deferred Revenue	316,638	-
Due to Other Funds	1,964,509	2,180,961
Due to Other Governmental Units	210,795	141,516
Accrued Wages and Other Payroll Liabilities	575,115	1,310,540
Other Liabilities	65,854	49,904
Total Liabilities	<u>6,261,289</u>	<u>6,135,554</u>
Fund Balance		
Reserved for Security Deposits	19,191	518,706
Reserved for Medicaid Savings	-	450,435
Unreserved and Undesignated	<u>6,176,046</u>	<u>5,225,952</u>
Total Fund Balance	<u>6,195,237</u>	<u>6,195,093</u>
Total Liabilities and Fund Balance	<u>\$12,456,526</u>	<u>\$12,330,647</u>

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Total fund balance - governmental funds	\$6,195,237
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	8,807,433
Deduct: accumulated depreciation	(4,438,279)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
Deduct: Loans payable	(184,488)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add: net assets of governmental activities accounted for in the internal service fund	1,964,509
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:	
Deduct: Compensated absences	(967,440)
Net assets of governmental activities	<u>\$11,376,972</u>

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005 AND 2004

Revenues	General Fund	
	2005	2004
State Grants		
Department of Community Health Contract	\$6,060,337	\$6,723,518
Adult Benefit Waiver	596,417	771,546
MI Child	40,619	40,904
Title XX	9,002	9,002
Food Stamps	37,427	35,237
Birchwood	336,034	307,882
Elderly Waiver	2,121,529	2,214,296
Alzheimers Grant	16,652	16,652
Respite	100,005	100,000
PAS / ARR Grant	146,822	146,616
DCH Block Grants	-	14,336
Total State Grants	9,464,844	10,379,989
Federal Grants		
DCH Block Grants	-	58,537
Strong Families / Safe Children Grant	41,475	39,480
Drop In Center	5,150	9,260
Jail Diversion	-	63,090
Wraparound	41,140	37,750
Path Homeless Housing	104,414	64,000
Peer Support	77,000	107,451
Respite Allocation	17,581	14,406
Case Management	34,100	44,433
PAS / ARR Grant	440,466	439,849
Total Federal Grants	761,326	878,256
Contributions - Local Units		
County Appropriations	1,069,283	991,723
Charges for Services		
Medicaid	34,139,169	33,031,517
Medicaid - CMW	274,006	273,910
Client and Third Party Pay	723,601	680,246
Total Charges for Services	35,136,776	33,985,673
Interest and Rents		
Interest	247,306	103,282
Other Revenue	287,640	123,319
Total Revenues	46,967,175	46,462,242

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005 AND 2004

	General Fund	
	2005	2004
Expenditures		
Health & Welfare - Mental Health		
Personnel Expenditures	\$14,843,214	\$15,429,160
Operating Expenditures	31,923,612	31,065,873
Capital Outlay	550,626	-
Debt Service - Principal	56,905	57,614
Debt Service - Interest	10,543	13,641
Total Expenditures	<u>47,384,900</u>	<u>46,566,288</u>
Revenues Over (Under) Expenditures	(417,725)	(104,046)
Other financing sources (uses)		
Operating Transfers In (Out) - Internal Service Fund	<u>271,449</u>	<u>-</u>
Excess Of Revenues And Other Sources Over Expenditures And Other Uses	(146,276)	(104,046)
Fund Balance, October 1	\$6,501,367	6,543,866
Prior Period Adjustment	<u>(159,854)</u>	<u>61,547</u>
Fund Balance, September 30	<u><u>\$6,195,237</u></u>	<u><u>\$6,501,367</u></u>

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Net change in fund balances - total governmental funds	(\$146,276)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add: capital outlay	550,626
Deduct: depreciation expense	(441,598)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.	
Add: interest income	54,997
Less: transfers out	(271,449)
Payment of principal on long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	
Add: principal paid on notes payable	56,905
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.	
Less: increase in accrual for compensated absences	<u>(103,795)</u>
Change in net assets of governmental activities	<u><u>(\$300,590)</u></u>

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2005 AND 2004

		Internal Service Fund	
		2005	2004
Assets			
Due From Other Funds		<u>\$1,964,509</u>	<u>\$2,180,961</u>
Net Assets			
Restricted		<u>\$1,964,509</u>	<u>\$2,180,961</u>

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2005 AND 2004

	Internal Service Fund	
	2005	2004
Non-Operating Income		
Interest	\$54,997	\$25,574
Operating Transfers In (Out)		
Operating Transfers Out - Abatement	(271,449)	-
Total Operating Transfers In (Out)	(271,449)	-
Change in Net Assets	(216,452)	25,574
Net Assets, Beginning of Year	2,180,961	2,160,384
Prior Period Adjustment	-	(4,997)
Net Assets, End of Year	<u>\$1,964,509</u>	<u>\$2,180,961</u>

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2005 AND 2004

	Internal Service Fund	
	2005	2004
Cash Flows From Operating Activities		
Adjustment To Reconcile Net Income		
To Net Cash Provided By Operating Activities:		
(Increase) Decrease In:		
Due From Other Funds	\$216,452	(\$25,574)
Cash Flows From Investing Activities		
Interest Revenue	54,997	25,574
Cash Flows From Capital And Related Financing Activities		
Operating Transfers In - Prior Periods	471,169	-
Operating Transfers (Out) - Abatement	(742,618)	-
Total Cash Flows From Capital And Related Financing Activities	(271,449)	-
Net Increase In Cash And Cash Equivalents	-	-
Cash And Cash Equivalents, Beginning of Year	-	-
Cash And Cash Equivalents, End of Year	-	-
Reconciliation of Operating Income To Net Cash Provided		
By (Used for) Operating Activities:		
Operating Income (Loss)	-	-

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Northern Lakes Community Mental Health (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

Reporting Entity

The Authority operates under the provisions of Act 258 - Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Authority arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are made available to residents of the Crawford, Grand Traverse, Leelanau, Missaukee, Roscommon, and Wexford Counties who meet eligibility and other criteria. As the community mental health services provider for the above mentioned counties, the Authority also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the activities of the Authority. *Governmental activities* normally are supported by intergovernmental revenues.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Measurement Focus, Basis of Accounting and Basis of Presentation

Government-Wide Financial Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

An exception to the "60 day" rule is the recognition of certain patient fee revenues and the related receivables. The Authority has elected to recognize these revenues on the cash basis of accounting, which is in compliance with the Department of Community Health's revenue recognition formula. The difference between the cash basis of accounting and modified accrual basis of accounting for these revenues are not material to the financial statements.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, 2005, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The financial activities of the Authority that are reported in the accompanying financial statements have been classified into the following major governmental and proprietary funds.

Governmental Funds

General Fund – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Authority's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Budgetary Data

Budgets are adopted by the Authority for all governmental funds. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit. Investments are stated at cost.

Michigan Compiled Laws, Section 129.91, authorized the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

Receivables and Payables between Funds

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due / to other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts. Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health and the State of Michigan.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year. Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings and Improvements	10-40
Equipment and Furnishings	3-10
Computer Equipment	3-5
Software	3-5
Vehicles	5
Land	Not Depreciated

Restricted Assets

Cash has been restricted for future payment of the compensated absences liability. These restricted assets are held in a separate cash account with local financial institutions.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for Medicaid Savings, compensated absences and post-employment benefits are examples of the latter.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Inpatient / Residential Cost Liability

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority is not billed for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated due to reimbursements from third party payers that are applied to the total cost before the billings are sent to the Authority.

Deferred Revenue

Deferred revenues arise when the Authority receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

Grants

Grants from the Department of Community Health (DCH) and other governmental units are recorded as revenues when the actual expenditures financed by the grant are incurred. Excess funding is treated as deferred until used or until retrieved by the source.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the functional level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2005, The Authority incurred expenditures in excess of the amounts appropriated as shown on the schedule in the back of this report as unfavorable variances.

NOTE 3. DETAIL NOTES

Cash and Cash Equivalents

At September 30th the carrying amount of the Authority's cash and cash equivalents was as follows:

Cash & Cash Equivalents	2005	2004
Petty Cash	\$2,114	\$1,714
Checking, Savings, And Money Market Accounts	6,649,125	7,731,260
Totals	\$6,651,239	\$7,732,974

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

At year-end, the carrying amount of the Authority's cash deposits was \$6,649,125 and the bank balance was \$7,868,232. Of this bank balance, \$200,000 was covered by federal depository insurance and the remaining balance was uninsured and uncollateralized.

The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits government funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Restricted Cash

The Authority has charged to the Department of Community Health the vested portion of compensated absences as of September 30th. The Authority holds, in a separate bank account, funds restricted for the payment of the compensated absences as they come due.

Investments

The Authority's investments can be classified into three categories to give an indication of the level of risk assumed. Category 1 includes investments that are insured or registered or securities held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments that are held by the counterparty's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent but not in the Authority's name.

At September 30th the investments of the Authority was as follows:

Investment	Category 3	Carrying Amount	Market Value
US Government Securities	\$4,781,403	\$4,781,403	\$4,733,503

Interest Rate Risk. As described in Note 1, state law limits the maturity of investments in commercial paper to not more than 270 days. The Authority does not have a formal investment policy that further limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits the type of investments for which the Authority may invest its available reserves. The Authority has no investment policy that would further limit its investment choices. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

Concentration of Credit Risk. The Authority places no limits on the amount they may invest in any one issuer. Investments issued or explicitly guaranteed by the U.S. government are excluded from this requirement.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

Accounts Receivable

Accounts receivable represents amounts due from third party payers, patients, and others.

Due from Other Governmental Units

Due from other governmental units as of September 30th consists of the following:

Due From:	2005	2004
State of Michigan – OBRA	\$101,878	\$125,747
State of Michigan – Elderly Waiver	39,889	52,027
State of Michigan – Child Waiver	48,204	162,073
State of Michigan – Wraparound	11,326	17,723
State of Michigan – Quality Assurance Assessment Program	369,119	-
State of Michigan – Various Other DCH Grants	144,413	124,382
State of Michigan – HSW	127,103	-
Total	\$841,932	\$481,952

Security Deposits

Security deposits consist of the following:

Security Deposit	2005	2004
Client Security Deposits	\$19,191	\$18,706
Security Deposits - Foundation	-	500,000
Total	\$19,191	\$518,706

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

Capital Assets

Capital asset activity for the year ended September 30, 2005 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Land	\$160,000	-	-	\$160,000
Building & Improvements	5,673,075	-	-	5,673,075
Vehicles	844,293	\$229,436	\$504,258	569,471
Equipment	2,059,529	345,358	-	2,404,887
Sub-total	8,736,897	574,794	504,258	8,807,433
Accumulated Depreciation	(4,476,771)	(441,598)	(480,090)	(4,438,279)
Totals	\$4,260,126	\$133,196	\$24,168	\$4,369,154

Depreciation expense was charged to Health and Welfare – Mental Health Program

Deferred Revenue

The amount reported as deferred revenue represents the 5% carry forward allowance for the general fund portion of the Department of Community Health's authorization.

Due to Other Governmental Units

Due to other governmental units as of September 30th consist of the following:

Due To:	2005	2004
State Of Michigan – Inpatient	\$210,795	\$141,516

Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September and includes employer payroll taxes as follows:

Liability	2005	2004
Wages	\$374,332	\$479,862
Longevity	16,635	16,635
FICA	28,533	36,733
Pension Payable	146,445	471,036
Other	9,170	-
Total	\$575,115	\$1,004,266

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

Other Liabilities

This liability consists primarily of amounts due for the flexible spending accounts for child care and medical expenses.

Leases

Northern Lakes Community Mental Health Authority has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the financial statements. The following is a summary of the more significant leases.

FRONT STREET BUILDING

The Authority has entered into a long-term lease agreement for their community mental health facilities. The lease is for a period of 23 years with the first lease payment due on January 20, 2001. The terms of the lease calls for monthly rental payments of \$43,122. The monthly rent payments shall be appropriately adjusted from time to time to compensate the Landlord for schedule rate adjustments to the bonds and any unanticipated additional cost, expenses, or losses incurred by the Landlord. See related "Commitments" note.

RESIDENTIAL FACILITIES

The Authority has entered into various building leases for the purpose of providing residential facilities. The following is a summary of some of the terms of those leases:

Description/Location	Date of Lease	Length of Lease	Monthly Payments
Jones Lake Road, Grayling Twp.			\$2,022
Seneca Street, Cadillac	7/14/91	240 months	2,459
Evergreen, Roscommon	3/9/03	60 months	1,325
Woodland, Houghton Lake	11/9/02	60 months	1,350
Pearl Street, Cadillac	3/9/02	36 months	2,767
East Bay, Traverse City	7/27/04	36 months	2,752
Elmwood, Traverse City	2/20/98	108 months	2,660

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

The following is a schedule of future minimum rental payments required under the above operating leases that have initial or remaining noncancelable lease terms as of September 30, 2004:

Year Ending September 30 th	Minimum Payments
2006	\$545,299
2007	545,299
2008	545,299
2009	545,299
2010-2014	2,587,322
2015-2019	2,587,322

Long-Term Debt

Furniture and Equipment Note

On February 15, 2001 the Authority secured a promissory note with Huntington National Bank in the amount of \$250,000 for the purpose of purchasing furniture and equipment. The terms of the note call for 60 monthly payments of \$4,760 and the interest rate is stated at 5.3%.

Group Home Note

On December 4, 2001 the Authority secured a promissory note with Huntington National Bank in the amount of \$180,000 for the purpose of purchasing a group home. The terms of the note call for 59 monthly payments of \$1,178 starting on January 10, 2002 and one last payment estimated at \$151,309 due on December 10, 2006. The interest rate is stated at 4.81%.

The remaining payments, including interest of \$9,550, due for each year on the above loans are as follows:

Fiscal Year Ending September 30 th	Payments
2005	\$71,254
2006	37,402
2007	152,828
Thereafter	None

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

Compensated Absences

Vacation

North West Staff - The Authority's policy allows employees to accumulate up to 240 hours of vacation time. Any excess accumulation shall be forfeited. Amounts accumulated are to be paid to an employee and recognized as an expense either when vacations are actually taken or upon termination of employment.

South East Staff – The Authority's policy allows full time employees to accumulate vacation time at various rates, depending on the employee's length of service with the Authority. Amounts accumulated up to a maximum of 33 days are to be paid to the employee and recognized as an expense either when paid time off is used or upon termination of employment.

Personal

The Authority's policy allows employees 16-64 hours of personal leave per year depending on location. Any balance of unused personal leave hours remaining shall be paid at the employee's prevailing hourly rate. Unused personal leave is paid out upon termination.

Sick

Upon retirement (eligible to begin drawing a benefit payment from MERS or Social Security) or death of the employee, the Authority shall pay to the employee (or the employee's estate) 50% of the employee's unused frozen sick hours up to a maximum of 120 days (or 60 days) at the employee's regular rate of pay at the time of retirement or death.

Compensated absences liability, including related FICA, is shown below:

	2005	2004
Vacation Pay Liability	\$645,383	\$562,752
Personal Leave Pay Liability	100,522	105,135
Sick Pay Liability	221,535	195,758
Total Compensated Absences	\$967,440	\$863,645

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

Change in Long-Term Debt

The following is a summary of the changes in the long-term debt for the year ended September 30, 2004:

Debt	Beginning Balance	Additions	Reductions	Ending Balance
Promissory Note - \$250,000	\$77,298	-	\$54,331	\$22,967
Promissory Note - \$180,000	164,095	-	2,574	161,521
Compensated Absences	863,645	\$103,795	-	967,440
Totals	\$1,105,038	\$103,795	\$56,905	\$1,151,928

Interest expense for the year ended September 30, 2005 was \$10,543.

Prior Period Adjustment

Prior period adjustments shown in this report represents the adjustment to net assets and due to the following:

Adjustment To Net Assets	2005	2004
Insurance refunds from prior years	-	\$87,421
DCH Cost settlement adjustments – Great Lakes CMH	-	(83,198)
DCH Cost settlement adjustments – 9/04	(\$202,390)	-
NMSAS ISF from Central CMH	-	35,311
Compensated absences liability included in fund financial statements	-	306,274
Other	42,536	17,016
Adjustments to net fixed assets	-	1,156,165
Total Increase (Decrease) To Net Assets	(\$159,854)	\$1,518,989

Net Assets

Reserves

A portion of the net assets has been reserved equal to the net amount available in the Internal Service Fund (\$1,964,509) which as been set aside to fund the net uninsured exposure of potential shortfalls of the Medicaid Specialty Supports and Services Contract and the State General Fund Contract revenues.

NOTE 4. OTHER INFORMATION

Compliance Audits

All governmental grants are subject to a transactional and compliance audit by the grantors or their representatives. Therefore, an indeterminable contingency exists for expenditures, which may be disallowed by the granting agencies.

Pension Plans

DEFINED BENEFIT PLAN

Plan Description

The Authority, (Northern Lakes Community Mental Health) contributes to the Michigan Municipal Employees Retirement System ("MMERS"), an agent multiple employer system administered by the MMERS retirement board that covers some of the employees of the Authority. The Authority's defined benefit plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. There were 67 active members at December 31, 2004, the most recent actuarial valuation for the Authority. The State of Michigan Public Act No. 427 of the Public Acts 1984 is the authority under which benefit provisions and obligations to contribute are established and amended.

Employees with 6-8 or more years of service are entitled to annual pension benefits beginning at normal retirement age (60). There are options for early retirement based on number of years of service. Normal benefits are 2.25% to 2.5% of final average compensation multiplied by total years of credited service.

Funding Policy

MMERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The funding policy of the Authority is to make contributions equal to the actuarially determined required annual contribution. There are no member contribution requirements. For the year ended September 30, 2005, the Authority contributed \$480,349 based on the monthly contribution requirements provided by the plan actuary. An additional contribution of \$900,000 was also made for the year ended September 30, 2005. As of September 30, 2005, there were 67 active employees.

The contribution requirements of the Authority and its members are established and may be added by the Retirement Board of MMERS. The Authority's annual pension cost was equal to these required and actual contributions.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

Actuarial Valuation Assumptions

Valuation date	December 31, 2004
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll, open basis
Remaining amortization period	30 years
Asset valuation method	Cost
Investment rate of return	8.0%
Projected salary increases	4.5%

GASB 25 Information (as of December 31, 2004)

Retirees and beneficiaries currently receiving benefits	\$8,262,145
Terminated employees (vested former members) not yet receiving benefits	1,427,670
Current employees – Accumulated employee contributions including allocated investment income	8,306
Employer financed	8,375,279
Total actuarial accrued liability	18,073,400
Net assets available for benefits at actuarial value (Market value is \$13,510,083)	13,840,608
Unfunded (Overfunded) actuarial accrued liability	\$4,232,792

GASB 27 Information (as of December 31, 2004)

Fiscal year beginning	January 1, 2006
Annual required contributions (ARC)	\$698,724
Amortization factor used – underfunded liabilities (26 years)	0.058519
Amortization factor used – underfunded liabilities (30 year level \$)	0.085453

Additional information regarding this plan can be obtained by requesting the publicly available financial statements from: Municipal Employees' Retirement System of Michigan, 447 N. Canal St., Lansing, MI 48917

DEFINED CONTRIBUTION PLAN

The Authority sponsors the "Northern Lakes Mental Health Defined Contribution Plan" created in accordance with the Internal Revenue Code Section 401 (a). Participants with 1,000 hours of service during a plan year vest 25% each year for the first four years of service and 100% vested thereafter. The Authority is required to contribute an amount equal to 7.5% of the participant's compensation.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

The plan is administered by the third party trustees and plan provisions and contribution requirements can only be amended by authorization of the Board of Directors. As of September 30, 2005, there were 192 active employees. Total contributions amounted to \$563,360 for the year ended September 30, 2005. Employees do not contribute to the plan.

Commitments

In October 1987, the Foundation for Mental Health-Grand Traverse/Leelanau was organized for the following purposes:

- To support public charities in the area of mental health maintenance, education, prevention of mental health impairment, and to improve the quality of life.
- To operate for the benefit of and in support of the *Great Lakes Community Health Authority*, which is now part of *Northern Lakes Community Health Authority*.
- To accept and administer donations, contributions and gifts for the benefit of *Northern Lakes Community Mental Health Authority* or any other organizations that are a part of, or are affiliated with, the delivery or provision of community mental health services in the Counties of Grand Traverse and Leelanau, and are exempt from tax under Section 501(c) (3) of the Internal Revenue Code.
- To provide resources for any activities that will provide a direct benefit to, and improve the mental health and welfare of, the people in the Grand Traverse and Leelanau Counties.
- To operate solely as a non-profit corporation in such manner that no part of its net earnings will incur to the benefit of any member, trustee, officer or individual.

On September 24, 1999, the Authority entered into an agreement with the Foundation and a construction contractor for the construction of a new office building; construction was completed in 2001. The Foundation financed the construction via tax exempt Industrial Bonds that were purchased 100% by Huntington National Bank. The bonds are non-recourse to the Foundation and are secured primarily by an assignment of a lease rental payable through a 20 year, non-cancelable lease from the Authority.

Risk Management

The Authority is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for liability, vehicle physical damage, and property and crime.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

As a member of this pool, the Authority is responsible for paying all costs, including damages, indemnification, and allocated loss adjustment expenses for each occurrence that is within the Authority's Self Insured Retention (SIR). The Authority's SIR is \$250 per vehicle for vehicle physical damage and \$250 per occurrence for property and crime.

The Authority's coverage limits include \$15,000,000 for liability, \$1,500,000 for vehicle physical damage, and between \$10,000 and \$200,000 for property and crime.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

This page was intentionally left blank.

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	Budgeted Amounts			Favorable (Unfavorable) Variances Between Actual and Final Budget
	Original	Final	Actual	
Revenues				
State Grants				
Department of Community Health Grant	\$6,273,086	\$6,360,289	\$6,060,337	(\$299,952)
Adult Benefit Waiver	808,232	609,494	596,417	(13,077)
MI Child	40,236	40,550	40,619	69
Title XX	9,002	9,002	9,002	-
Food Stamps	41,616	31,616	37,427	5,811
Categorical	373,699	364,231	336,034	(28,197)
Elderly Waiver	2,225,607	2,240,607	2,121,529	(119,078)
Alzheimers Grant	16,661	16,652	16,652	-
Respite	100,000	100,000	100,005	5
PAS / ARR Grant	119,875	125,500	146,822	21,322
Total State Grants	10,008,014	9,897,941	9,464,844	(433,097)
Federal Grants				
Strong Families / Safe Children Grant	-	-	41,475	41,475
Drop In Center	5,150	5,150	5,150	-
Wraparound	50,000	50,000	41,140	(8,860)
Path Homeless Housing	74,961	121,121	104,414	(16,707)
Peer Support	-	77,000	77,000	-
Respite Allocation	20,000	17,581	17,581	-
Case Management	45,593	45,593	34,100	(11,493)
PAS / ARR Grant	359,625	376,500	440,466	63,966
Total Federal Grants	555,329	692,945	761,326	68,381
Contributions - Local Units				
County Appropriations	1,026,740	1,026,740	1,069,283	42,543
Charges for Services				
Medicaid	32,947,960	34,215,054	34,139,169	(75,885)
Medicaid - CMW	253,500	253,500	274,006	20,506
Client and Third Party Pay	759,428	637,628	723,601	85,973
Total Charges for Services	33,960,888	35,106,182	35,136,776	30,594
Interest and Rents	90,000	132,000	247,306	115,306
Other Revenue	154,654	258,828	287,640	28,812
Total Revenues	45,795,625	47,114,636	46,967,175	(147,461)

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	Budgeted Amounts			Favorable (Unfavorable) Variances Between Actual and Final Budget
	Original	Final	Actual	
Expenditures				
Health & Welfare - Mental Health				
Current:				
Personnel Costs	\$14,272,689	\$14,766,353	\$14,843,214	(\$76,861)
Operating Expenditures	30,900,488	32,185,116	31,923,612	261,504
Capital Outlay	555,000	555,000	550,626	4,374
Debt Service - Principal	56,905	56,905	56,905	-
Debt Service - Interest	10,543	10,543	10,543	-
Total Expenditures	<u>45,795,625</u>	<u>47,573,917</u>	<u>47,384,900</u>	<u>189,017</u>
Revenues Over (Under) Expenditures	-	(459,281)	(417,725)	41,556
Other financing sources (uses)				
Operating transfers in (out) - internal service fund	-	459,281	271,449	(187,832)
Excess of revenues and other sources over expenditures and other uses	-	-	(146,276)	(146,276)
Fund Balance, October 1	-	-	6,501,367	6,501,367
Prior Period Adjustments	-	-	(159,854)	(159,854)
Fund Balance, September 30	<u>-</u>	<u>-</u>	<u>\$6,195,237</u>	<u>\$6,195,237</u>

The notes to the financial statements are an integral part of this statement.

OTHER SUPPLEMENTAL INFORMATION

INDIVIDUAL FUND STATEMENTS

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF PERSONNEL EXPENDITURES
FOR THE YEAR ENDING SEPTEMBER 30, 2005 AND 2004

	General Fund	
	2005	2004
Personnel Expenditures		
Salaries And Wages	\$9,817,033	\$10,353,800
Fringe Benefits	5,026,181	5,075,360
 Total Personnel Expenditures	 <u>\$14,843,214</u>	 <u>\$15,429,160</u>

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF OPERATING EXPENDITURES
FOR THE YEAR ENDING SEPTEMBER 30, 2005 AND 2004

	General Fund	
	2005	2004
Operating Expenditures		
Professional fees and dues	\$307,317	\$414,081
Board per diem	20,262	24,181
Printing, publications, and advertising	85,986	83,002
Supplies	299,766	249,112
Capital outlay under \$5,000	95,041	228,696
Insurance	147,390	87,446
Travel - staff and board	177,822	148,463
Utilities	193,931	168,693
Rents	619,663	645,245
Repairs and maintenance	361,996	375,358
Software/firmware	39,524	88,056
Contractual services	28,230,601	27,242,323
Clubhouse food	29,705	34,302
Third meal	824	8,803
Client medical services and supplies	182,967	82,973
Vehicle expense	92,141	88,066
Other	164,721	182,135
Transportation - other	482,404	503,064
Respite care	120,701	146,851
Telephone	198,401	207,640
Staff Development	72,449	57,383
Total Operating Expenditures	<u>\$31,923,612</u>	<u>\$31,065,873</u>

The notes to the financial statements are an integral part of this statement.



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Northern Lakes Community Mental Health Authority
Traverse City, Michigan

We have audited the financial statements of the governmental activities and each major fund of Northern Lakes Community Mental Health Authority (the Authority) as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated January 5, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

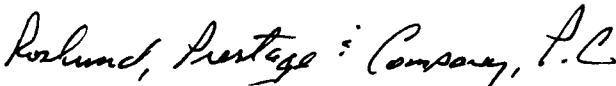
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of the Authority in a separate letter dated January 5, 2006.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.



Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 5, 2006



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Northern Lakes Community Mental Health Authority
Traverse City, Michigan

Compliance

We have audited the compliance of Northern Lakes Community Mental Health Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, that are applicable to each of its major federal programs for the year ended September 30, 2005. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Northern Lakes Community Mental Health Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005.

Internal Control Over Compliance

The management of Northern Lakes Community Mental Health Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 5, 2006

Northern Lakes Community Mental Health Authority
Schedule Of Expenditures Of Federal Awards
For The Year Ended September 30, 2005

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Grant / Project Number	Approved Grant Amount	(Accrued) Deferred Revenue At 10/01/2004	Current Year Receipts	Current Year Expenditures	(Accrued) Deferred Revenue At 09/30/2005	GPFS Federal Revenue Recognized	GPFS Page
Department of Health and Human Services									
Passed Through The Michigan Department of Community Health: Medical Assistance Programs - OBRA/PASARR Screening **	93.778	NA	NA	(\$94,310)	\$458,368	\$440,466	(\$76,408)	\$440,466	5
Department of Community Mental Health Block Grants	93.958	04 B1 MI CMCH	\$253,084	(79,805)	79,805	-	-	-	
Jail Diversion	93.958	PCA #20136	63,090	(17,279)	17,279	-	-	-	
Strong Families / Safe Children	93.958	PCA #72089	45,480	-	39,480	41,475	(1,995)	41,475	5
Drop In Program Development	93.958	04B1MICMHS-03	5,150	(1,335)	3,330	5,150	(3,155)	5,150	5
Respite Services	93.958	04B1MICMHS-03	17,581	-	17,581	17,581	-	17,581	5
Education and Training for Peer Supports	93.958	04B1MICMHS-03	77,000	-	48,159	77,000	(28,841)	77,000	5
Case Management	93.958	04B1MICMHS-03	45,593	(9,015)	27,343	34,100	(15,772)	34,100	5
Wraparound	93.958	04B1MICMHS-03	50,000	(17,723)	47,537	41,140	(11,326)	41,140	5
Total For 93.958				(125,157)	280,514	216,446	(61,089)	216,446	
Path-Supportive Housing	14.235	M128B30001	34,834	-	-	4,964	(4,964)	4,964	5
Path-SHP Supportive Services	93.150	SMX060023K	16,834	-	-	493	(493)	493	5
Path Homeless Housing	93.150	SMX060023K	121,121	(16,947)	71,387	98,957	(44,517)	98,957	5
Total For 93.150				(16,947)	71,387	99,450	(45,010)	99,450	
TOTALS				(\$236,414)	\$810,269	\$761,326	(\$187,471)	\$761,326	5

** The OBRA/PASARR Screening amounts shown above represents 75% of the actual amounts.

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COST
YEAR ENDED SEPTEMBER 30, 2004

SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's opinion issues:	Unqualified.
Internal control over financial reporting:	
▪ Material weakness(es) identified?	No.
▪ Reportable condition(s) identified that are not considered to be material weakness(es)?	None reported.
Noncompliance material to financial statements noted?	No.

FEDERAL AWARDS

Internal control over major program:	
▪ Material weakness(es) identified?	No.
▪ Reportable condition(s) identified that are not considered to be material weakness(es)?	None reported.
Type of auditor's report issued on compliance for major programs:	Unqualified.
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No.
Dollar threshold used to distinguish between type A and type B programs:	\$300,000.
Auditee qualified as low-risk auditee?	Yes.
Identification of major programs:	OBRA/PASARR Screening, CFDA #93.778.

FINANCIAL STATEMENT FINDINGS

None.



RECEIVED
DEPT. OF TREASURY

MAR 28 2006

LOCAL AUDIT & FINANCE DIV.

MANAGEMENT LETTER

Board of Directors
Northern Lakes Community Mental Health Authority
Traverse City, Michigan

In planning and performing our audit of the financial statements for Northern Lakes Community Mental Health Authority for the fiscal year ended September 30, 2005, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated January 5, 2006 on the financial statements of Northern Lakes Community Mental Health Authority.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,



Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 5, 2006

Northern Lakes Community Mental Health Authority
Management Letter

GASB Statement No. 45

Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was approved by the GASB in June of 2005. Other postemployment benefits are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they stop working. They include all postemployment healthcare benefits and any other type of benefits that are provided separately from a pension plan.

The basic premise of GASB 45 is that other postemployment benefits are earned and should be recognized when the employee provides services, just like wages and compensated absences.

We recommend the Authority consider the effects of GASB 45 on any current or future postemployment benefits packages.

The effective date for the Authority to implement this new standard is for the fiscal year ending September 30, 2009. However, earlier application is encouraged by the GASB.

Long-term Debt Payments

The principal portion of the long-term debt payments is posted to the respective liability accounts resulting in a decreasing liability balance with each payment. The basis for determining the portion of the total payment that represents principal (versus interest) is the amortization schedule prepared for each debt.

During our audit we found that the allocation between principal and interest for some of the payments did not agree with the amortization schedules. We recommend that management periodically reconcile the ending principal balances with the amortization schedules to assure an accurate liability balance on the financial statements.

Also, interest paid on long-term debt is currently posted to the supplies expenditure account.

We recommend that a separate Interest Expense account be established and all interest paid be posted to this account.

Northern Lakes Community Mental Health Authority
Management Letter

Budget

Budget-To-Actual statements are required to be presented in the audit report on the modified accrual basis. Budgets often are prepared to comply with the reporting format requested by the Department of Community Health and may include items that are found in both the full accrual and modified accrual basis (i.e., principal payments, capital outlay, depreciation, compensated absences, gains and losses on disposal of assets, loan proceeds).

We recommend that management review, and modify if necessary, the annual budget to assure that it is prepared on the modified accrual basis for presentation in the annual audit report. This budget should then be adopted by the board in addition to, if necessary, any other budgets adopted on another basis.